

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ROCHESTER)	
WATER DISTRICT, BUTLER COUNTY,)	
KENTUCKY, SEEKING APPROVAL OF)	CASE NO. 8142
AN INCREASE IN ITS WATER)	
SERVICE RATES AND CHARGES)	

O R D E R

On February 6, 1981, Rochester Water District ("Applicant") filed an application with this Commission requesting authority to increase its water service rates by approximately \$44,966 annually, an increase of 67%. On February 12, 1981, the Division of Consumer Protection in the Department of Law filed a motion to intervene in this proceeding which was sustained. A hearing was scheduled for June 3, 1981, which was rescheduled to June 18, 1981. The rescheduling was due to a motion filed by Applicant on April 10, 1981, requesting an extension of time until May 20, 1981, to submit information in conformance with 807 KAR 5:001E and other additional information requested by Order of the Commission. Said motion was sustained and the hearing was held as scheduled at the Commission's offices in Frankfort, Kentucky. All consumers were notified in the manner prescribed by Kentucky Revised Statutes and Commission

regulations. Applicant failed to have key witnesses available for cross-examination at this hearing, causing further delays in these proceedings. However, the Commission issued an Order to obtain the information needed from the witnesses. On July 8, 1981, Applicant filed its response to said order and the matter of the proposed increase in rates is now considered submitted for final determination by the Commission.

Commentary

Rochester Water District is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Applicant presently serves approximately 369 customers in Butler and Muhlenberg Counties in western Kentucky.

Test Period

Applicant proposed and the Commission has adopted the 12-month period ending October 31, 1980, as the test period for determining the reasonableness of the rates approved herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

Revenues and Expenses

Applicant proposed several adjustments to revenues and expenses as reflected on its Comparative Income Statement, Exhibit 2. These adjustments were based solely on estimated inflationary increases. The Commission in the past has allowed adjustments to the historical test year

that are "known and measurable." This approach to rate-making is widely used by regulatory bodies throughout the country and has been upheld by the courts in the Commonwealth of Kentucky. This Commission and its predecessors have not considered adjustments based solely on "estimated" cost increases for rate-making purposes. Therefore, the Commission has not allowed any of the proposed adjustments herein. The Commission finds the income statement prepared by the accounting firm of Ray, Peterson and Company to be the most accurate representation of the test year operations of Applicant and has accepted this statement for rate-making purposes.

Applicant did not propose an adjustment to the test year electric expense. However, the Commission has adjusted electric expense to reflect the current rates in effect from Pennyrite Rural Electric Cooperative. This results in an adjusted electric expense of \$5,034.

The Commission has reduced Applicant's depreciation expense by \$2,933 for rate-making purposes. Applicant's balance sheet reflected contributions in aid of construction of \$145,027 or approximately 32% of total plant. It is the intent of the Commission that Applicant, through its water service rates, will generate revenues sufficient to recover all costs incurred in providing service to its customers. However, it is not the Commission's intent that Applicant

charge its customers for costs it has not incurred, as would be the case if Applicant were allowed to charge its customers for depreciation on contributed property.

The Commission has reduced Applicant's miscellaneous operating income by \$1,744 for an error in recording revenue from penalties. This adjustment was based on the data submitted by Applicant on July 7, 1981, stating that the amount should have been \$17.62 rather than the \$1,762 shown on the income statement.

The Commission has increased Applicant's interest expense by \$113 to an adjusted amount of \$12,055, to reflect the annual interest expense based on the long-term debt outstanding at the end of the test year.

Based on the allowed pro forma adjustments, Applicant's test period operations appear as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$68,411	(\$1,744)	\$66,667
Operating Expenses	<u>69,965</u>	<u>(1,678)</u>	<u>68,287</u>
Operating Income (Loss)	(\$ 1,554)	(\$ 66)	(\$ 1,620)
Other Income & Deductions (Net)	<u>11,992</u>	<u>113</u>	<u>12,105</u>
Net Income	<u>(\$13,546)</u>	<u>(\$ 179)</u>	<u>(\$13,725)</u>

Revenue Requirements

The bond resolution from the Farmers Home Administration requires Applicant to maintain a debt service coverage of 1.2. The Commission is of the opinion that

this debt service coverage is adequate for Applicant to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus. Based on this debt service coverage Applicant's operating revenues should be \$88,940 which will require additional revenue of \$22,273 annually.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by Rochester Water District would produce revenues in excess of those found reasonable herein and therefore must be denied upon application of KRS 278.030.

The Commission further finds that the rates set out in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water service rendered by Applicant in that it will permit Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rates set forth in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water service rendered by Rochester Water District on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Applicant are hereby denied.

IT IS FURTHER ORDERED that Rochester Water District shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 14th day of October, 1981.

PUBLIC SERVICE COMMISSION

Martin M. Vohy
Chairman

Suzanne Randall
Vice Chairman

Jim Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8142 DATED OCTOBER 14, 1981

The following rates are prescribed for all customers served by Rochester Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	2,500 gallons	\$9.00 Minimum Bill
Next	3,000 gallons	4.00 per 1,000 gallons
Next	5,000 gallons	3.00 per 1,000 gallons
Next	15,000 gallons	2.50 per 1,000 gallons
Next	25,000 gallons	1.50 per 1,000 gallons
Over	50,500 gallons	1.00 per 1,000 gallons

Huntsville - South Hill Water System, Inc., \$1.00 per 1,000 gallons